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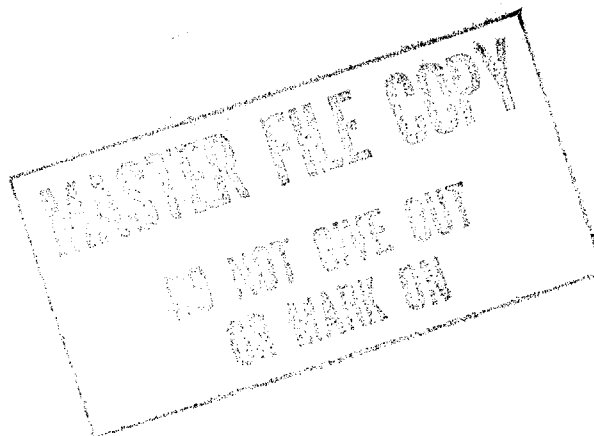
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Japan: Seeking a Policy for Defense Industries

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An Intelligence Assessment



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Japan: Seeking a Policy for Defense Industries

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An Intelligence Assessment

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October 1984

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**Japan: Seeking a Policy
for Defense Industries**

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Key Judgments

*Information available
as of 14 September 1984
was used in this report.*

Prime Minister Nakasone's commitment to improve Japan's military preparedness raises questions about the development of a national policy for defense industries—including both producers of military hardware and manufacturers of high-technology items with dual-use applications. Many analysts have argued that for a variety of reasons—growing technological capability, the need for new markets at home and abroad if Japanese economic growth continues to slow, and a natural desire to provide the maximum share of new military hardware from domestic sources—defense-related production would be a major growth sector in the 1980s. In fact, there is no national policy for defense industries as yet. Indeed, there is no group of firms that has coalesced to lobby for a strong national policy.

There are several reasons for the absence of a coherent defense agenda for industry:

- Industrial leaders, while agreeing that defense production can contribute to technological development, disagree on how much Japan should rely on technology sharing with the United States and other countries to develop a defense industrial base.
- There is considerable skepticism about the benefits for the national economy and international competitiveness from an industry devoted to weapons and defense technology.
- Perhaps most important, many government officials and businessmen remain wary of potential domestic and international criticism of an expanded defense industry.

For its part, the bureaucracy, which has the pivotal policymaking role, is also divided over the direction of defense industrial development:

- The Japan Defense Agency wants to see the growth of an industrial base to support its primary mission, but its limited political clout and rivalries among the three uniformed services inhibit development of a single procurement strategy.
- The Ministry of International Trade and Industry is most concerned with developing advanced technology but gives the civilian sector clear precedence. The Ministry, therefore, has acted aggressively to constrain military technology sharing with the United States that could rob Japan of the competitive advantage in areas where it leads US industry.

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EA 84-10179
October 1984

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- Foreign Ministry concern centers on the need to demonstrate to the United States Tokyo's commitment to increasing military capability while reassuring Japan's neighbors that there is no fundamental change in defense policy.
- The Ministry of Finance is committed to holding down government spending, and exceptions for the Defense Agency that would aid creation of a large defense industrial sector have been granted reluctantly.
- Only on the question of arms exports is the bureaucracy united. Past efforts to change the strictures on foreign arms sales have proved politically explosive. As a result, the bureaucracy as well as industry plans no initiatives in the near term to open foreign markets.

Despite the lack of progress on policy formulation to date, we believe Japan's political climate now more than in years past favors a discussion of goals for the defense industry that will lead to a clearer policy on defense industry:

- Prime Minister Nakasone is seeking to expand the defense budget and build military capabilities.
- The largest defense contractors increasingly see military contracts as the "tuition cost" for gaining knowledge about advanced technology and as a source of funding research and development that has important civilian as well as military applications.

Even if Nakasone's successor is a less enthusiastic advocate of defense policy, we do not believe that security issues, including those involving defense industries, will lose their public prominence. The concern over the Soviet military presence in East Asia, the effect of US attention to Japan's defense needs on official and popular opinion, and the slow but steady evolution in the public's acceptance of the Japanese defense establishment promise to keep security issues a prominent policy concern.

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Japan: Seeking a Policy for Defense Industries

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Prime Minister Nakasone has taken the lead in pushing for an improved defense capability by continuing efforts begun by his predecessor and by introducing new initiatives:

- Shortly after he took office in November 1982, he broke a bureaucratic stalemate to conclude an agreement with the United States for expanded exchange of technology with military potential.
- He has emphasized his commitment to the promise made by his predecessor that Japan will assume responsibility for defense of its sea lanes out to 1,000 nautical miles.
- Under Nakasone, the Defense Agency has continued to win steady—if modest—budget increases, despite a government austerity program launched in the late 1970s to bring the serious budget deficit under control.
- Nakasone has stressed the close identification of Tokyo's security interests with those of the West, particularly on such issues as Soviet SS-20 deployments.

These actions have intensified public discussion on whether Japan should underpin its military establishment with a stronger industrial base. Government officials and industry leaders remain some distance from a consensus on the proper role for domestic defense industries in the effort to build Japanese military capabilities. Their discussion, however, of the defense industry's course has put a spotlight on the issues and the key participants in a subject that will become an increasingly important aspect of Japanese economic and security policy in the years ahead.

Nakasone's First Initiatives

Nakasone's push for a domestic defense production capability dates back to June 1970, when, as Director General of the Japan Defense Agency, he proclaimed

that the JDA should make procurement from Japanese private industry its major goal. The JDA formulated procurement policy guidelines that called for:

- Maintaining an industrial base to produce equipment necessary for national defense.
- Promoting the independent development and production of equipment by private firms.
- Over the long term, promoting efficiency, economy, and stability in equipment and production.
- Applying the principle of competition in order to improve the development and technological capabilities of private firms to lower prices.

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Political opposition to this public declaration of policy was intense. Press commentary and criticism coupled the official emphasis on domestic production with the widely held perception that Nakasone—who was already viewed as a hawk—would try to increase defense expenditures. Opposition party leaders, media commentators, and some foreign critics of Japanese policy—especially in Southeast Asia and Western Europe, where the legacy of World War II strongly colored attitudes toward Japan's military role—also charged Nakasone with seeking an “autonomous defense,” a slogan from the 1930s that revived the image of Japan's expansionism.

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Even though the domestically oriented procurement policy has remained in effect, Japanese firms have not capitalized on the JDA's market. The share of JDA equipment developed and acquired at home has actually declined in recent years. The decline reflects Japanese interest in acquiring advanced weapon systems more rapidly—in part because of US encouragement but also because of the JDA's own perception that it must improve capabilities now rather than over the longer term (see table 1).

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Table 1
Japan: Weapons Procurement,
1977-81^a

	1977	1978	1979	1980	1981
Total (million US \$)	2,687	2,583	3,713	5,096	4,348
Domestically produced (percent)	93.4	85.4	85.2	88.5	80.5
Imported (percent)	3.5	2.5	4.6	4.8	6.0
Produced under license (percent)	3.1	12.1	10.2	6.7	13.5

^a Data are for Japanese fiscal year ending 31 March.

Source: Japanese Defense Agency.

Industry's Stake in Defense

We believe that Nakasone's attention to defense issues has prompted the major firms to take a second look at the defense market. In pushing for a greater share of domestic procurement, Japanese firms are now focused on the economic and technological benefits from a larger role for defense industries and regard increased funding for research and development as the short-term payoff from defense production. []

Narrowly defined as pure defense hardware production, Japan's defense industry is small. Arms exports are banned, and domestic hardware procurement totals only about \$5 billion a year. Industry's interests also lie in dual-use components such as computer chips and ceramics where increased funding for defense applications can be used to help fund technology for civilian uses. This broader and more difficult-to-define area of defense industry is clearly where the private sector is focusing. Press statements from the largest defense contractors have long stressed that the attraction in defense production is the experience gained from using the most advanced technology. As a case in point, Keidanren—Japan's most prestigious business federation—weighed in heavily on the R&D issue in early 1982, when the government was preparing to approve the JDA five-year buildup plan for 1983-87. Before the Cabinet met to endorse the plan, the Defense Production Committee of Keidanren, in

consultation with defense-related trade associations, recommended:

- That the share of the combined defense budget for equipment acquisition, R&D, and facility improvement be increased from 25.8 to 30 percent. (Comparable figures include United States, 34 percent; United Kingdom, 43 percent; West Germany, 31 percent; and France, 36 percent.)
- That the R&D share of the defense budget be increased from 1.1 to 3 percent by the end of 1987. (Comparable figures include United States, 10.3 percent; United Kingdom, 13.7 percent; West Germany, 3.7 percent; and France, 12.4 percent.)
- That domestic development and production be promoted during the period covered by the plan. According to the US Embassy, this representation influenced the JDA's decision to assign domestic high-technology weapons technology a priority position in defense budget plans. []

Defense contractors also point to the restrictions on technology exports from the United States in arguing that government sponsorship of domestic research and development can purchase technological independence for Japan. Security-related restrictions on foreign licensing of the most sophisticated US technology have kept Japanese manufacturers from coproducing as high a percentage of some US weapon systems as they would like. For example, Mitsubishi and Kawasaki Heavy Industries took orders in 1978 for 15 F-15 fighters and five P-3C antisubmarine patrol planes under technical license from McDonnell Douglas and Lockheed Aircraft Corporation, respectively. Mitsubishi, in particular, had planned to produce the first several F-15s by assembling US-made components, but eventually it hoped to procure a large portion of the necessary components from the domestic market. US restrictions on technology transfer derailed the plan, however, and required the firm to continue to acquire at least 25 percent of total production from its US partner. []

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A Divided Bureaucracy

Industry's interest in a greater share of the defense dollar, however, has not yet galvanized the bureaucracy to action. Perhaps most important, the *Japan Defense Agency*, which would have to coordinate an overall government policy and push for defense interests, remains a weak organization with a low rank among the ministries. Furthermore, internal divisions within the JDA and its limited domestic political clout circumscribe its role in fostering a public debate over the future of the defense sector. [REDACTED]

Within the JDA, the services differ on the role domestic defense industries should play in supporting their missions. US and other foreign military observers have noted that the Air, Ground, and Maritime Self-Defense Forces independently define their missions and identify the hardware they need. For example, the Air Self-Defense Force (ASDF), with a priority need for the most advanced fighter aircraft, sees few virtues in the slow and costly domestic development of new hardware. This operational need has led the ASDF to support the licensed production of the F-15 and extensive use of foreign components in the domestically designed and produced F-1. In contrast, the Ground Self-Defense Force (GSDF) has usually given priority to domestic development and production of its main force weapons, such as tanks and artillery. Compared with the more technology-dependent Maritime and Air Self-Defense Forces, the GSDF has a relatively less pressing need for state-of-the-art weaponry and has, therefore, not argued strongly in favor of foreign procurement.¹ Its willingness to accept the costs of domestic weapons development is also shaped in part by its relatively loose links to its US military counterparts and its more limited need for hardware that has an operational interface with new US weapon systems. [REDACTED]

The uniformed services do agree that current levels of defense production are inadequate for supplying Japan in wartime, but Japan has neither plans nor legislation to provide for defense industry mobilization. [REDACTED]

Japan's Defense Industries

Japan's defense-related industry is highly concentrated. Although more than 2,200 companies are registered with the JDA Central Procurement Office, over half the JFY 1983 defense procurement funds went to only five firms—Mitsubishi Heavy Industries, Nippon Electric Corporation, Kawasaki Heavy Industries, Ishikawajima-Harima Heavy Industries, and Mitsubishi Electric Corporation (see table 2). The largest firm—Mitsubishi Heavy Industries, which produces aircraft, missiles, ships, submarines, and armored vehicles—holds nearly 19 percent of the defense market. By contrast, in 1982 the five largest US defense contractors combined—General Dynamics, McDonnell Douglas, United Technologies, Boeing, and General Electric—accounted for only 17 percent of the much larger US defense market. Key big-ticket items produced by the Japanese firms include armored personnel carriers, tanks, and small aircraft. Japanese companies also make a variety of munitions and small arms (see appendix). [REDACTED]

From a sectoral perspective, defense plays a leading part in total industrial activity only in aircraft and arms and ammunition production (see table 3), reflecting the extremely small size of Japan's domestic aviation manufacturing and the tight reins on civilian firearms and weapons possession. Although the prime contractors usually do not rely heavily on the military, numerous subcontractors depend on military business. According to industry journals, for example, there are between 130 and 140 major suppliers of aircraft parts. [REDACTED]

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Table 2
Japan: Top 20 Defense Contracting Companies, 1983^a

Rank	Contractor	Contracts	Amount (million US \$)	Contracts as Share of Total Defense Procurement (percent)
1	Mitsubishi Heavy Industries	175	880	18.7
2	Nippon Electric Corp.	300	532	11.3
3	Kawasaki Heavy Industries	122	486	10.3
4	Ishikawajima-Harima Heavy	64	359	7.6
5	Mitsubishi Electric Corp.	180	313	6.7
6	Toshiba Corp.	198	210	4.5
7	Japan Steel Works, Ltd.	30	98	2.1
8	Nippon Oil Co., Ltd.	184	73	1.6
9	Fuji Heavy Industries, Ltd.	37	72	1.5
10	Komatsu, Ltd.	50	62	1.3
11	Mitsubishi Precision Co., Ltd.	19	52	1.1
12	Maruzen Oil Co., Ltd.	221	47	1.0
13	Hitachi Shipbuilding and Engineering Co.	29	45	1.0
14	Fujitsu, Ltd.	154	44	0.9
15	Daikin Kogyo Co., Ltd.	61	42	0.9
16	Nissho Iwai Corp.	25	38	0.8
17	Daikyo Oil Co., Ltd.	199	36	0.8
18	Kyodo Oil Co., Ltd.	291	35	0.7
19	Idemitsu Kosan Co., Ltd.	116	34	0.7
20	Oki Electric Industry Co., Ltd.	93	32	0.7

^a Japanese fiscal year ending 31 March.


^b Defense procurement totaled \$4,706 million for FY 1983.

Source: Japan Defense Agency.




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Restrictions on the defense budget, in any case, sharply limit any buildup of the defense industries. Even though defense spending has grown at a steady pace, increasing nearly fivefold since 1970, the growth in funding has only allowed procurement of major weapon systems by deferring or stretching out payments for the hardware. This installment payment plan has created a massive debt burden for the JDA. In fact, the JDA's long-term procurement obligation—its unfunded liability—is the fastest growing component in the defense budget. It increased almost 90 percent between Japanese fiscal years (JFY) 1980 and 1984, compared with a growth rate for total

defense expenditures of 31.6 percent—from \$9.4 billion to \$12.4 billion—in the same period. In contrast, operational expenditures and downpayments for new equipment grew by only 5.6 percent in 1980-84. 

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In sum, despite much talk of cooperation, particularly in discussions with the United States, we believe a unified procurement strategy for the JDA remains a distant prospect. The lack of this leverage impedes JDA's ability to swing its weight in stimulating movement toward a policy on domestic defense industry development. (See appendix for current major weapons procurement.) 

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Table 3
Japan: Defense Production as Share
of Key Industrial Sectors, 1981 ^a

	Industrial Production (million US \$)	Defense Production (million US \$)	Defense Production as Share of Industrial Production (percent)
Total	982,383	3,414	0.3
Electronics and commu- nications equipment	112,677	463	0.4
Vehicles	107,178	82	0.1
Food and provisions	105,236	161	0.2
Fuels	64,340	292	0.5
Textile products	50,099	31	0.1
Medicine and medical equipment	13,633	20	0.1
Ships and boats	11,466	553	4.8
Aircraft	1,220	949	77.8
Arms and ammunition	571	569	99.6
Others	515,963	294	0.1

^a Japanese fiscal year ending 31 March.

Source: Japan Defense Agency.

The *Finance Ministry's* control of the purse strings gives it one of the most powerful roles in determining the future of the defense industries. Finance Ministry officials, who are detailed to the JDA Procurement Office and other key defense planning posts, participate in formulating JDA budget requests.

their views often take precedence as the JDA prepares its budgets for Finance Ministry review. Moreover, the Finance Ministry officials who are on loan to the JDA remain in touch with their home offices as the Agency's budget preparations unfold, and it is reasonable to assume that their views reflect the informal guidance of their home ministry's senior management—as well as their own professional priorities—in JDA's internal councils.

Outside their role in the bureaucracy, Finance Ministry officials have also ensured that business and political leaders are aware of the cost of higher defense spending. The Ministry, for example, has

clearly warned that the only way to expand these expenditures would be through major increases in corporate taxes, rather than through a reduction in other government outlays. In short, we believe the Finance Ministry has a significant effect on virtually every important stage in setting and implementing defense budget priorities.

Despite overall responsibility for fostering the growth and development of Japanese industry, the *Ministry of International Trade and Industry* has not enunciated its policy on defense-related production. Nonetheless, we believe MITI is using its central role in industrial targeting,² and especially its ability to foster cooperative research and development, to guide industry toward developing high-technology products. We expect this activity will ultimately improve the capability of Japanese firms to compete for contracts in the military-related communications, computer, and guidance fields, but MITI's official policy statements clearly suggest that the Ministry gives priority to strengthening the civilian economy and the competitiveness of Japanese industry in international civilian markets.

MITI, moreover, appears to be opposed to rapid expansion of defense technology ties with the United States that could trouble Japanese activities in international trade or domestic civilian industrial development plans. MITI is concerned that technology sharing could rob Japan of the competitive advantage in areas where it leads US industry. Press reports suggest that MITI also fears Washington might impose security restrictions on the use of Japanese-developed technologies in nonmilitary products marketed in the United States if those technologies form the basis of new US and Japanese military systems. in 1982 ceramics manufacturer Kyocera sold its US subsidiary, and New Nippon Steel dropped plans to acquire a US metallurgical company because the company foresaw possible conflict between US technology controls and regulations and Japanese commercial intentions.

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The *Ministry of Foreign Affairs'* role in formulating policy on defense industry is limited, resulting from its responsibility as the interpreter of Japan's security policy abroad and as the conduit for foreign reactions to Tokyo's behavior. Various divisions within the Ministry differ on defense policy depending on their regions of responsibility. The influential North American Affairs Bureau, which manages US-Japanese relations, favors a definition of national defense policy that will counter US—and West European—criticism that Japan is not contributing its share to the security of the West. Officials in the bureau probably also see a commitment to a military buildup as a way to ease frictions with Washington on trade and other foreign policy concerns as well as defense issues. For example, press and academic sources have noted that the Ministry has encouraged purchases of US-developed weapons as one way to reduce trade frictions. []

Views from other quarters in the Foreign Ministry have historically provided a counterpoint to the North American Affairs Bureau's stance. Both press and US Embassy sources have regularly reported that others in the Ministry believe that if Japan abandoned its strict commitment to self-defense it would seriously complicate political and economic relations with Japan's neighbors. Officials in the Asian Affairs Bureau reportedly still argue that longstanding concerns in Southeast Asia and in South Korea that Japan could go too far too fast in improving its defense capabilities continue to be warning signs about the consequences of a major Japanese military buildup. In our view, such opinions carry less weight in the calculations of policymakers, politicians, and the industry leaders involved with defense issues than popular domestic views against a larger military establishment. []

The Politicians

We believe Prime Minister Nakasone, more than any other recent Japanese leader, is committed to a rethinking of Japanese defense policy.³ Under his leadership, the capabilities of Japan's defense industry have become an area of genuine policy concern. Within the Liberal Democratic Party (LDP), growing acceptance of the Self-Defense Forces and the perceived need for some increase in defense capability

have blurred previously sharp distinctions between hawks and doves, although a small group of highly conservative Dietmen, who argue for rapid and significant increases in defense spending, still stands out. Various press [] sources report that Nakasone—unlike his predecessors—frequently asks for policy recommendations from private think tanks and study groups, which have undertaken serious research on strategy, force structure, and the defense industrial base. The Japan Center for Strategic Studies is one such group chaired by LDP Dietman Shin Kanemaru, a former JDA director general and a leader in the largest faction of the LDP, that includes senior JDA officials, former chairmen of the Joint Staff Council, and several former chiefs of staff of the Air, Ground, and Maritime Self-Defense Forces. []

The LDP has generally been willing to acknowledge and, over time, to accommodate US interest in greater Japanese defense efforts, though obviously at a more moderate pace than Washington would like. Nonetheless, we do not believe that pressures from interest groups, including industry, have had a significant impact on the party's decision to improve gradually Japan's defense capability. The defense industries do not make up a cohesive lobby and, as a result, whatever Nakasone's own goals on Japanese security policy, he—like his predecessors—must remain in step with a political party sensitive to a broader electorate that does not support a rapid defense buildup. Opinion polls continue to show that the public favors the current policy of very gradual improvements in defense capabilities. Nakasone, moreover, is clearly mindful that, in the past, efforts to move too quickly have exposed his flanks to attacks by his LDP rivals. []

In the past year, Nakasone's LDP has found allies in the opposition camp as the middle-of-the-road parties have moderated their attitudes toward defense issues. The Democratic Socialist Party (DSP), which traditionally has been closest to the LDP on defense, has further altered its stand by endorsing an increase in the 1-percent-of-GNP ceiling on defense spending. During the Diet session last spring, the DSP and another moderate opposition party, the Komeito (Clean Government Party), frequently supported the

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government on defense issues. []
 [] the DSP and Komeito see these moves as part of a strategy to make themselves attractive as LDP coalition partners. []

Even the Japan Socialist Party has shifted slightly toward the center on defense issues. It concluded at its convention last winter that the Self-Defense Forces are "legal," albeit, in a bow to the party's left wing, maintaining the contradictory stand that they are "unconstitutional because they violate the 'no-war' clause in Japan's constitution."⁴ Despite the new policy, the JSP and the Communist Party oppose an expanded defense effort. We believe that they—as well as the moderate opposition, when it suits their political interests—will continue to mirror and to capitalize on the ambiguities in public opinion by using defense issues to call the government to task in the Diet. Defense industries have taken their share of such heat in the recent past, especially when the opposition has brought violations in export controls, such as the sale to South Korea of steel pipe for use in gun barrels, before the Diet. Although the opposition parties probably will not be able to block a gradual increase in Japan's defense budget, they will continue to force the government to publicly justify each new expenditure to brake any more rapid or substantial growth in defense spending. []

Arms Exports—A Particularly Contentious Issue

Japanese firms realize that to obtain the economies of scale necessary to make major profits on defense, particularly in view of the limited domestic market, Japan would have to change the current strictures on arms exports. Given popular opinion, however, Japan's corporate leadership has so far refrained from seeking major changes in Tokyo's tight restrictions on weapons exports (see inset, "Arms Export Policy").

[] senior Keidanren officials support the virtual embargo on arms exports because they believe arms sales abroad would:

- Rekindle political controversy over the constitutional legitimacy of the Self-Defense Forces and threaten the gains made in popular attitudes toward an expansion in defense.

⁴ The contradiction in the party's stand reflects the effort by JSP chairman Ishibashi gradually to shift his party's stance on defense away from the doctrinaire insistence on "unarmed neutrality" and total rejection of the Mutual Security Treaty with the United States. []

Arms Export Policy

Tokyo has restricted arms exports since 1967. At that time, Prime Minister Sato established what has become known as the Three Principles on weapons exports. He ordered that weapons not be exported to:

- Communist Bloc nations covered by COCOM controls.
- Nations under a UN arms ban.
- Most importantly, countries involved, or likely to become involved, in conflicts. []

The reins have been tightened under a series of prime ministers. In 1976, Prime Minister Miki said that Japan would "refrain from" exporting weapons to areas not covered by the Three Principles in keeping with "the spirit of the Constitution and the Foreign Trade Control Law." He also embargoed the export of weapons production facilities. In October 1977, Tokyo ordered Japanese firms not to invest in any foreign enterprise engaged in weapons production. []

- Adversely affect Japanese foreign policy by undermining Japan's peaceful image.
- Increase trade frictions, leading to protectionism and reactions that could bring losses in civilian trade substantially in excess of any gains from arms sales. []

The Defense Production Committee of Keidanren reportedly also is leery of mounting an effort to alter the arms export ban because past attempts to do so have backfired. In 1976, Keidanren's encouragement of government discussions on whether exports of armament plants could be allowed provoked widespread negative public reaction, leading then Prime Minister Miki to extend, rather than limit, the scope of the arms export ban. Although some representatives of firms on Keidanren's Defense Production Committee and a few senior business leaders, such as

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the former chairman of Nissan Motors,⁵ have spoken out against the export ban, opinion polls and surveys of views within industry suggest that the public and business executives alike strongly oppose a Japanese role as international arms merchant. [redacted]

MITI's past behavior also suggests that it is not inclined to push for arms exports. As the ministry directly responsible for control of arms sales under the Foreign Exchange Control Act of 1949, MITI has enforced standards even more stringent than the first official arms export guidelines promulgated in 1967 (see inset, "Japan: Defining Arm Exports"). Kakuei Tanaka—then MITI Minister—enunciated an MITI interpretation of policy on arms exports that was considerably stronger than Japan's "official" position in 1972, when he extended the ban on weapons exports to include all countries, not just those involved—or likely to be involved in—hostilities, part of the Communist Bloc, or under UN sanctions. MITI has also expanded the definitions of "arms" and "weapons." The original guidelines defined weapons as objects used by armed forces in combat and for destructive purpose. Under the Self-Defense Law and the Export Control Ordinance, MITI now requires government approval for sale of a wide variety of military-related items, including sporting and whaling guns, ammunition, industrial dynamite, fireworks, and target planes.⁶ In recent years, Tokyo has prosecuted a firm that, without government approval, sold 90,000 handgrenade fuzes to the Philippines and another that sold breech rings, seamless pipe used in gun barrels, and other equipment worth \$3.6 million to South Korea. [redacted]

Tokyo has behaved conservatively when the distinction between military and civilian exports has blurred in "gray areas," such as motor vehicles, aircraft, textiles, and communications equipment. In most

[redacted]

⁶ Even though defense production is only a sideline for the major Japanese firms, rivalry among large companies for such contracts is intense. Other firms also are trying to crack the inner circle, particularly in specialized fields. In missiles—where Mitsubishi Electric Company and Toshiba are the leading rivals—Nissan Motors linked up with Martin-Marietta in 1983 in an effort to break the corner on missile contracts. [redacted]

Japan: Defining Arms Exports

Under the Self-Defense Forces Law and the Export Control Ordinance, prior government approval is required for the sale of:

Rifles, machineguns, trench mortars, antiaircraft guns, bullets and shells, handgrenades, bombs, torpedoes, missiles, high-quality explosives (such as TNT) for military use, tanks, ships, armored cars, self-propelled howitzers, warships, naval escort ships, submarines, high-speed torpedo boats, fighters, bombers, antisubmarine aircraft, antisubmarine nets, torpedo nets, floating cables for magnetic minesweeping, armor plate, military helmets, bulletproof vests, military searchlights, and capsules containing bacteriological, chemical, and radioactive substances for military use.

Government approval is also required for "non-weapon" exports including:

- *Hunting guns, clay pigeon shooting guns, air rifles, whaling guns, projectiles for those guns.*
- *Dynamite for industrial use, explosives for producing industrial-use dynamite, fireworks, and target planes.* [redacted]

cases, MITI prohibits exports—even when they might be legal—if they threaten to be controversial or embarrassing to the government. In 1981, for example, the Ministry withheld approval for construction of harbor facilities in Malaysia until assurances were given that they would not be used for military purposes. That conservatism almost certainly results from the experience of the Ministry in 1978, when, over US objections, Ishikawajima Heavy Industries sold a floating drydock capable of accommodating vessels of 40,000 tons to the Soviet Union. Tokyo ensured that a subsequent order was canceled when it was confirmed that the Soviet Navy was berthing a Kiev-class aircraft carrier at Vladivostok in the first drydock.⁷

⁷ MITI has occasionally turned a blind eye to other deals. A noticeable exception to the general policy of restraint is the continued shipment of trucks to North Korea, where—despite their purported civilian use—they are being mounted with weapons such as multiple rocket launchers. [redacted]

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Future Course for Defense Industries

Although a well-defined Japanese policy on the development of defense industries is probably a long way off, the government and industry officials for now seem to favor a concentration on sustained technological research and development. This course appears to satisfy industry's current preference, allows the Foreign Ministry to demonstrate progress to the United States without arousing concern among Japan's neighbors, and at least begins movement toward domestic production of the sophisticated weapons the JDA hopes to add to its inventory. Moreover, for the civilian sector, it promises new avenues of development in applications of dual-use technologies that could be spawned by defense-related investments in the 1980s and an investment tool to help firms, such as shipbuilding and automobiles, to diversify out of declining or increasingly difficult markets. []

Whether Japan should expand its defense industrial capability, in what direction, and at what rate, nevertheless will remain central questions in the discussion of defense policy. We believe that technological cooperation with the United States and other advanced countries in the development of Japan's weapons inventory also will remain a contentious and unresolved issue in the 1980s. The lines on this question are drawn and the discussions to date have already engaged politicians, the bureaucracy, and the business community. Nonetheless, the participants are far from any settled view or agreement on the diplomatic, commercial, and technological advantages of closer cooperation in defense technology. []

We believe that sharply differing views within industry and the public at large on the economic impact of a larger defense industry will persist in the 1980s. Some sectors such as the aviation industry almost certainly will find a more receptive audience for the argument that the advanced technologies of some modern weapons systems represent a key component of future economic strength. But we also believe that within Japanese business circles the preponderant opinion will still give priority to the civil over the military sector as the essential component in Japan's prosperity. []

US policy and the US-Japanese relationship will be central to the ongoing debate. US requests for a greater effort coincide with Nakasone's own wish to

expand Japan's capabilities. The Prime Minister stated in the Diet earlier this year that Japan can win the respect of the West—and political influence in world affairs—only by bearing a greater share of its own defense. So long as he remains Tokyo's chief spokesman—at this point, a tenure that is likely to extend through 1986—we believe that Nakasone's general emphasis on the defense issue will encourage advocates of a stronger Japanese military-industrial base and catalyze a lively discussion of industry's role in Japan's military and economic security. []

Even if Nakasone's successor is a less enthusiastic advocate of defense policy, we do not believe security issues, including those involving defense industries, will lose their public prominence. The concern over the Soviet military presence in East Asia, the effect of US attention to Japan's defense needs on official and popular opinion, and the slow but steady evolution in the public's acceptance of the Japanese defense establishment promise to keep security issues a prominent policy concern. If the Japanese economy continues to slow down—a prospect that is already a concern for the late 1980s—business leaders could well see the defense sector in a new, more attractive light. A more forceful push for government funding, or for a relaxation in other constraints on arms exports, would further energize the debate on defense industrial development. For the next few years, however, we do not believe politicians, the bureaucracy, or business will be willing to challenge directly the basic popular constraints—or to alter the priorities, given civilian over military investment—that govern the size and role of Japan's defense industry. []

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Appendix

Major Japanese Weapon Systems and Equipment

Domestically developed			
Category	Item	Primary Contractor	
Ground systems	Type-73 armored personnel carrier	Mitsubishi Heavy Industries, Ltd. Komatsu, Ltd.	
	Type-74 tank	Mitsubishi Heavy Industries, Ltd.	
	Type-75 155-mm self-propelled howitzer	Mitsubishi Heavy Industries, Ltd. The Japan Steel Works, Ltd.	
	Type-75 130-mm self-propelled multiple-rocket launcher	Nissan Motor Co., Ltd. Komatsu, Ltd.	
	Type-82 command and communication vehicle	Komatsu Ltd.	
Aircraft	PS-1 antisubmarine patrol flying boat	Shin Meiwa Industry Co., Ltd.	
	C-1 transport	Nihon Aeroplane Manufacturing Co.	
	T-2 advanced trainer	Mitsubishi Heavy Industries, Ltd.	
	F-1 support fighter	Mitsubishi Heavy Industries, Ltd.	
Guided missiles	Type-79 missile and launcher (antiship, antitank)	Kawasaki Heavy Industries, Ltd.	
	Type-80 (air to ship)	Mitsubishi Heavy Industries, Ltd.	
	Type-81 short-range (short range surface to air)	Toshiba Corp.	
License produced			
Category	Item	Licensor	Main Domestic Manufacturer
Ground systems	203-mm self-propelled howitzer (except cannon)	BMV Co. (US)	Komatsu, Ltd. The Japan Steel Works, Ltd.
Shipboard systems	76/62 OTO compact gun mount	OTO Melara, SPA (Italy)	The Japan Steel Works, Ltd.
	Gas-turbine engine (Olympus, Tyne, Spay)	Rolls Royce, Ltd. (UK)	Kawasaki Heavy Industries, Ltd.
Aircraft	F-15J interceptor fighter	McDonnell Douglas Corp. (US)	Mitsubishi Heavy Industries, Ltd.
	P-3C fixed-wing antisubmarine patrol aircraft	Lockheed Corp. (US)	Kawasaki Heavy Industries, Ltd.
	AH-1S antitank helicopter	Bell Helicopter Textron (US)	Fuji Heavy Industries, Ltd.
Guided missiles	Improved HAWK (surface to air)	Raytheon Corp. (US)	Mitsubishi Electronics
	Sea Sparrow (ship to air)	Raytheon Corp. (US)	Mitsubishi Electronics
	Sea Sparrow (launcher)	OTO Melara, SPA (Italy)	The Japan Steel Works, Ltd.
	Sparrow (air to air)	Raytheon Corp. (US)	Mitsubishi Electronics
	Sidewinder (air to air)	Raytheon Corp. (US)	Mitsubishi Heavy Industries, Ltd.

Major Japanese Weapon Systems and Equipment (continued)

Imported

Category	Item	Foreign Manufacturer
Ground systems	84-mm recoilless gun cannon	FFV Ordnance Division (Sweden)
	203-mm self-propelled howitzer	Rock Island Arsenal (US)
Shipboard systems	Phalanx close-in weapon system	General Dynamics, Pomona Division (US)
Aircraft	E-2C airborne early-warning aircraft	Grumman Aerospace Corp. (US)
	C-130H transport	Lockheed-Georgia Co. (US)
Guided missiles	Stinger (man portable, surface to air)	General Dynamics Corp. (US)
	TOW (antitank)	Hughes Aircraft Corp. (US)
	Tartar (ship to air)	General Dynamics Corp. (US)
	Harpoon (antiship)	McDonnell Douglas Astronautics (US)

Source: Japan Defense Agency.



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